

Report  
of the  
Examination of  
Fireman's Fund Insurance Company of Wisconsin  
Brookfield, Wisconsin  
As of December 31, 2003

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Jim Doyle, Governor**  
**Jorge Gomez, Commissioner**

**Wisconsin.gov**

February 4, 2005

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

Honorable Jorge Gomez  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of  
the affairs and financial condition of:

FIREMAN'S FUND INSURANCE COMPANY OF WISCONSIN  
Brookfield, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Fireman's Fund Insurance Company of Wisconsin (the company) was conducted in 2001 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company participates in an affiliated reinsurance pool led by Fireman's Insurance Company (FFIC). The California Insurance Department performed an examination of FFIC as of December 31, 2003. Audit procedures performed by the California Insurance Department were reviewed and incorporated into the work papers supporting this examination.

#### **Independent Actuary's Review**

An independent actuary was engaged by the California Insurance Department. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. In addition, a Senior Casualty Actuary in the California Insurance Department reviewed the work of the independent consulting actuary and performed additional analysis as deemed appropriate. The actuarial work was reviewed and incorporated into the work papers supporting this examination.

## **II. HISTORY AND PLAN OF OPERATION**

The company was organized in 1979 by The American Insurance Company, a wholly owned subsidiary of FFIC, as Fireman's Fund Insurance Company of Wisconsin. The company changed its name to American Concord Insurance Company on February 24, 1993, and reverted back to Fireman's Fund Insurance Company of Wisconsin on July 27, 1993. The following is a description of the changes in FFIC's ownership that have occurred since the company's incorporation.

FFIC was directly or indirectly a wholly owned subsidiary of American Express Company until 1985 when FFIC was sold to Fireman's Fund Corporation. In an initial public offering, Fireman's Fund Corporation and American Express Company sold 8,000,000 and 27,000,000 shares, respectively, of Fireman's Fund Corporation common stock. Following the initial offering, American Express Company ownership decreased to 40.9%. Thereafter, while American Express remained a significant minority shareholder of Fireman's Fund Corporation until 1991, its ownership gradually declined. In 1989, Fireman's Fund Corporation was renamed the Fund American Companies, Inc.

In 1991, FFIC became a subsidiary of Allianz of America, Inc., a member of the Allianz Aktiengesellschaft Insurance Group. On November 1, 1997, direct control of FFIC's stock was transferred to Allianz Insurance Company, a subsidiary of Allianz of America, Inc. On December 31, 1999, Allianz Aktiengesellschaft (Allianz) owned 84.42% and Munchener Ruckversicherung-Gesellschaft (Munchener) owned 15.58% of Allianz of America, Inc. On December 31, 1999, Allianz and Munchener exchanged shares in companies where there was a common ownership stake, resulting in Allianz acquiring all of the shares of Allianz of America, Inc.

The company has no employees. All company operations are performed by affiliates. For further comments on the agreements which provide services, see the section of this report titled "Affiliated Companies."

The company is licensed in all states except California, Maine, New Hampshire, and Vermont, and the District of Columbia. In 2003, the company reported direct premium in the following states:

New York	\$ 109,026
Dist. Columbia	86,375
Virginia	49,926
Pennsylvania	(174,478)
Georgia	(406,860)
All others	<u>(49,438)</u>
Total	<u>\$ (385,449)</u>

In 2001, the group initiated a restructuring plan which resulted in the company's business being transferred to other affiliates. This resulted in the 2003 direct premiums written being negative. Effective January 1, 2003, the company's participation in the affiliated reinsurance pool was reduced from .1% to 0%. This effectively put the company in run-off and the company is currently being marketed for sale.

The major products marketed by the company focused on commercial lines of insurance and were consistent with operations of other members of the affiliated reinsurance pool. There were 451 independent agents listed with the company.

The following table is a summary of the net insurance premiums written by the company in 2003. The premium volume of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Fire	\$ 8	\$ (27,986)	\$ 8	\$ (27,986)
Allied lines		(6,021)		(6,021)
Farmowner's multiple peril		(9,530)		(9,530)
Homeowner's multiple peril		(240,587)		(240,587)
Commercial multiple peril	(5,369)	(354,179)	(5,369)	(354,179)
Ocean marine		(30,177)		(30,177)
Inland marine	(432)	(160,235)	(432)	(160,235)
Medical malpractice – occurrence		(48,698)		(48,698)
Medical malpractice - claims made	(366)	(15,559)	(366)	(15,559)
Earthquake		(12,301)		(12,301)
Worker's compensation	(487,611)	(71,754)	(487,611)	(71,754)
Other liability – occurrence	2,325	(252,432)	2,325	(252,432)
Other liability - claims made		(50,053)		(50,053)
Products liability – occurrence	5,502	(21,200)	5,502	(21,200)
Products liability - claims made		(50)		(50)
Private passenger auto liability	72,026	(71,806)	72,026	(71,806)
Commercial auto liability	(124)	(78,589)	(124)	(78,589)
Auto physical damage	28,592	(98,376)	28,592	(98,376)
Fidelity		(45)		(45)
Surety		(23,530)		(23,530)
Burglary and theft		(8)		(8)
Boiler and machinery		(17)		(17)
Auto Warranty		(102,460)		(102,460)
<b>Total All Lines</b>	<b><u>\$(385,449)</u></b>	<b><u>\$(1,675,593)</u></b>	<b><u>\$(385,449)</u></b>	<b><u>\$(1,675,593)</u></b>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of nine members. Directors are appointed annually to serve a one-year term. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board. At the time of the examination fieldwork, there was a vacancy on the board. Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Joseph Beneducci Santa Rosa, CA	Executive Vice President Fireman's Fund Insurance Company	2005
Bruce Friedberg Novato, CA	Senior Vice President Fireman's Fund Insurance Company	2005
Thomas Geissler Mill Valley, CA	Executive Vice President Fireman's Fund Insurance Company	2005
Charles Kavitsky Tiburon, CA	President & Chief Executive Officer Fireman's Fund Insurance Company	2005
Janet Kloenhamer Novato, CA	Senior Vice President, General Counsel and Corporate Secretary Fireman's Fund Insurance Company	2005
Jill Paterson Tiburon, CA	Executive Vice President & Chief Financial Officer Fireman's Fund Insurance Company	2005
David Sargent Danville, CA	Senior Vice President Fireman's Fund Insurance Company	2005
Linda Wright Tiburon, CA	Senior Vice President and Treasurer Fireman's Fund Insurance Company	2005

#### Officers of the Company

The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>
Charles Kavitsky	Chairman, President and Chief Executive Officer
Jill Paterson	Executive Vice President and Chief Financial Officer
Janet Kloenhamer	Senior Vice President and Corporate Secretary
Linda Wright	Senior Vice President and Treasurer



No compensation was included in the examination report for these officers as they were employed by Fireman's Fund Insurance Company. Expenses were allocated based on the company's participation in the affiliated reinsurance pooling agreement. The company's participation for 2003 was 0%.

#### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committee at the time of the examination is listed below:

##### **Executive Committee**

Charles Kavitsky, Chair  
Joseph Beneducci  
Jill Paterson

#### IV. AFFILIATED COMPANIES

Fireman's Fund Insurance Company of Wisconsin is a member of the Allianz Aktiengesellschaft (Allianz) holding company system. The holding company system contains a large number of companies. For the purposes of the examination report, only the companies in the direct chain of control are identified. A brief description of the companies listed is found below.

**Organizational Chart  
As of December 31, 2003**



The company has no employees and all services are provided and costs allocated under affiliated agreements as listed below. In addition, the company's excess cash is invested in the Allianz Cash Pool, LLC.

**Allianz Aktiengesellschaft (Allianz)**

Allianz Aktiengesellschaft (Allianz) serves as a holding company and also acts as a reinsurer for its subsidiaries. Allianz is one of the larger global insurance groups. As of December 31, 2003, Allianz's consolidated audited financial statement reported assets of

\$1.058 trillion, liabilities of \$1.017 trillion, and shareholders' equity and minority interests of \$41.801 billion. Operations for 2003 produced net income of \$1.828 billion. The amounts were reported in Euros and converted to dollars for the purposes of this examination report. The exchange rate used was 1.1310 dollars to 1 Euro based on amounts provided by the company in its Holding Company Registration Statement. The "Summary of Current Examination Results" section of this report contains comment on the conversion factor used.

#### **Allianz of America, Inc.**

Allianz of America, Inc., serves as a holding company for property and liability, and life insurance companies which market multi-line property and liability business, group and individual life, annuity, and accident and health business in the United States, Canada, Mexico, and several U.S. territories. Allianz of America, Inc., files a consolidated federal income tax return. Tax allocations to the individual subsidiaries are subject to a tax reimbursement agreement.

As of December 31, 2003, Allianz of America Inc.'s consolidated audited financial statement, which was combined with Allianz of Canada, Inc., reported assets of \$71.65 billion, liabilities of \$61.70 billion and stockholders' equity of \$9.95 billion. Operations for 2003 produced a loss after minority interests of \$70 million.

#### **Allianz Global Risks US Insurance Company**

Allianz Global Risks US Insurance Company is a property casualty insurer licensed in 50 states writing global exposures for Fortune 1000 companies. It was previously named Allianz Insurance Company. As of December 31, 2003, US Global Risks Insurance Company's audited financial statement on a consolidated basis reported assets of \$4.788 billion, liabilities of \$1.404 billion, and stockholders' equity of \$3.384 billion. Operations for 2003 produced net income of \$46.86 million.

#### **Fireman's Fund Insurance Company**

Fireman's Fund Insurance Company is a national multi-line property and casualty insurer. Fireman's Fund Insurance Company provides the investment and underwriting functions for the company and other subsidiaries, under investment management and reinsurance pooling agreements. As of December 31, 2003, the company's audited financial statement reported

assets of \$10.636 billion, liabilities of \$7.777 billion, and surplus as regards policyholders of \$2.859 billion. Operations for 2003 produced net income of \$117.7 million.

**The American Insurance Company**

The American Insurance Company is a member of the affiliated reinsurance pool. Its coverages are consistent with the remaining members of the affiliated reinsurance pool. As of December 31, 2003, the company's audited financial statement reported assets of \$1.154 billion, liabilities of \$806 million, and surplus as regards policyholders of \$348 million. Operations for 2003 produced net income of \$36.1 million.

## V. REINSURANCE

The company participates in an affiliated reinsurance pool led by Fireman's Fund Insurance Company. Participation in the pool was amended to 0% from .1% effective January 1, 2003, on a going-forward basis. Underwriting, claim, and administrative services are provided to the company under the pooling agreement. The cost for these services is allocated based on the company's pooling percentage. The reinsurance agreement contained proper insolvency provisions.

### Affiliated Ceding Contract

Type: Quota Share Pooling Agreement

Participants:	Company Participation
Fireman's Fund Insurance Company	75.0%
The American Insurance Company	11.5
National Surety Corporation	4.0
Interstate Fire and Casualty Company	3.5
American Automobile Insurance Company	2.5
Chicago Insurance Company	1.5
Associated Indemnity Corporation	1.0
Interstate Indemnity Company	0.8
Fireman's Fund Insurance Company of Ohio	0.2
Fireman's Fund Insurance Company of Wisconsin	<u>0.0</u>
	100.0%

Scope: All business written by the participants

Retention: Based on pool participation

Effective date: Company was added to the pooling agreement on January 1, 1983  
Participation amended to 0% on January 1, 2003

Termination: By 60 days' written notice given by either party to the other participants of the pool

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**Fireman's Fund Insurance Company of Wisconsin**  
**Assets**  
**As of December 31, 2003**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$13,836,711	\$	\$13,836,711
Common stocks	2,296,760		2,296,760
Cash Equivalents	499,829		499,829
Short-term investments	899,669		899,669
Investment income due and accrued	171,897		171,897
Net deferred tax asset	<u>96,683</u>	<u>106,794</u>	<u>(10,111)</u>
Total Assets	<u>\$17,801,549</u>	<u>\$106,794</u>	<u>\$17,694,755</u>

**Liabilities, Surplus, and Other Funds**

Current federal and foreign income taxes	\$ (76,938)
Payable to parent, subsidiaries, and affiliates	<u>6,221</u>
Total Liabilities	(70,717)
Common capital stock	\$4,968,600
Gross paid in and contributed surplus	3,783,400
Unassigned funds (surplus)	<u>9,013,472</u>
Surplus as Regards Policyholders	<u>17,765,472</u>
Total Liabilities and Surplus	<u>\$ 17,694,755</u>

**Fireman's Fund Insurance Company of Wisconsin**  
**Summary of Operations**  
**For the Year 2003**

**Underwriting Income**

Premiums earned		\$ 0
Other underwriting expenses incurred	\$ 67	
Total underwriting deductions		<u>67</u>
Net underwriting gain or (loss)		(67)

**Investment Income**

Net investment income earned	785,597	
Net realized capital gains or (losses)	<u>24,992</u>	
Net investment gain or (loss)		810,589

Net income (loss) before federal and foreign income taxes	810,522
Federal and foreign income taxes incurred	<u>(72,630)</u>

Net Income	<u>\$883,152</u>
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**Fireman's Fund Insurance Company of Wisconsin**  
**Cash Flow**  
**For the Year 2003**

Premiums collected net of reinsurance		\$ 813,943
Net investment income		<u>1,013,748</u>
Total		199,805
Benefit and loss-related payments	\$ 4,639,730	
Commissions, expenses paid, and aggregate write-ins for deductions	1,104,330	
Dividends paid to policyholders	9,436	
Federal and foreign income taxes paid (recovered)	<u>247,636</u>	
Total deductions		<u>6,001,132</u>
Net cash from operations		(5,801,327)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$10,183,816	
Stocks	10,282,200	
Net gains (losses) on cash and short- term investments	<u>563</u>	
Total investment proceeds	20,466,579	
Cost of investments acquired (long-term only):		
Bonds	\$ 4,140,171	
Stocks	<u>10,111,637</u>	
Total investments acquired	<u>\$14,251,808</u>	
Net cash from investments		6,214,771
Net cash from financing and miscellaneous sources		<u>(1,103,693)</u>
<b>Reconciliation</b>		
Net change in cash and short-term investments		(690,249)
Cash and short-term investments, December 31, 2002		<u>2,089,747</u>
Cash and short-term investments, December 31, 2003		<u>\$ 1,399,499</u>

**Fireman's Fund Insurance Company of Wisconsin  
Compulsory and Security Surplus Calculation  
December 31, 2003**

Assets		\$17,694,755
Less liabilities		<u>(70,717)</u>
Adjusted surplus		17,765,472
Annual premium:		
Lines other than accident and health	\$(1,675,593)	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory surplus excess (or deficit)		<u>\$15,765,472</u>
Adjusted surplus (from above)		\$17,765,472
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security surplus excess (or deficit)		<u>\$14,965,472</u>

**Fireman's Fund Insurance Company of Wisconsin  
Reconciliation and Analysis of Surplus  
For the Four-Year Period Ending December 31, 2003**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Surplus, beginning of year	\$17,046,635	\$16,582,747	\$16,228,560	\$15,772,339
Net income	883,152	419,205	177,173	474,730
Change in net unrealized foreign exchange capital gains (losses)		389		
Change in net deferred income tax	(97,238)	(45,080)	(31,999)	
Change in non-admitted assets	(67,077)	82,349	36,401	(18,509)
Cumulative effect of changes in accounting principles	<u>                    </u>	<u>7,025</u>	<u>172,612</u>	<u>                    </u>
Surplus, end of year	<u>\$17,765,472</u>	<u>\$17,046,635</u>	<u>\$16,582,747</u>	<u>\$16,228,560</u>

**Fireman's Fund Insurance Company of Wisconsin  
Insurance Regulatory Information System  
For the Four-Year Period Ending December 31, 2003**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	<b>Ratio</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
#1	Gross Premium to Surplus	0.0%	0.0%	183.0%	216.0%
#2	Net Premium to Surplus	0.0	0.0	15.0	20.0
#3	Change in Net Writings	(99.0)*	(39.0)*	28.0	(10.0)
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	202.0*	99.0	87.0	75.0
#6	Investment Yield	3.8*	5.4	5.9	5.9
#7	Change in Surplus	0.0	4.0	3.0	4.0
#8	Liabilities to Liquid Assets	0.0	38.0	37.0	36.0
#9	Agents' Balances to Surplus	0.0	3.0	4.0	4.0
#10	One-Year Reserve Development to Surplus	(2.0)	(2.0)	2.0	0.0
#11	Two-Year Reserve Development to Surplus	(4.0)	0.0	1.0	(2.0)
#12	Estimated Current Reserve Deficiency to Surplus	0.0	(7.0)	11.0	3.0

Ratio No. 3 measures the change in net premiums written between the current and the prior year. The exceptional results in 2002 (39%) and 2003 (99%) were due to the company's business being moved to other affiliates in the group and the company's participation in the affiliated reinsurance pool being reduced from .1% to 0%.

Ratio No. 5 measures the level of losses and expenses incurred adjusted by investment income compared to the premiums earned over the past two years. The exceptional ratio in 2003 was due to \$(1,675,593) in net premium written decreasing the denominator in the calculation of the expense ratio and thereby increasing the result. Negative net premium written was the result of the discontinuing direct operations and transfer of existing business to other affiliates.

Ratio No. 6 measures the level of investment income derived from the company's invested assets for the year. The calculation is based on the average invested assets. In February of 2003, the reduction in the company's participation in the affiliated reinsurance pool was settled and assets totaling \$7,677,609 were transferred skewing the average invested assets available for investment.

**Growth of Fireman's Fund Insurance Company of Wisconsin**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus As Regards Policyholders</b>	<b>Net Income</b>
2003	\$17,694,755	\$ (70,717)	\$17,765,472	\$883,152
2002	25,829,040	8,782,405	17,046,635	419,205
2001	25,009,389	8,426,642	16,582,747	177,173
2000	24,277,677	8,049,117	16,228,560	474,730

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Net Premium Earned</b>	<b>Loss And LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2003	\$(2,061,042)	\$(1,675,593)	\$ 0	0.0%	(0.0)%	(0.0)%
2002	(1,550,307)	2,493,231	2,525,978	106.1	57.6	163.7
2001	30,404,474	4,067,898	3,944,572	89.4	34.6	124.0
2000	35,123,915	3,176,207	3,115,244	99.9	23.3	123.2

The trend shows the effect of the corporate restructuring as renewal business has been transferred to affiliates and the company's participation in the Fireman's Fund Affiliated Reinsurance Pool being reduced to 0% in 2003.

### Reconciliation of Surplus per Examination

There were no adjustments to surplus as regards policyholders between that reported by the company and as determined by this examination. The \$17,765,472 reported by the company will be accepted. There was one reclassification as shown in the following table. Details of the reclassification can be found under the title Common Stock in the "Summary of Current Examination Results" section of this report.

#### Examination Reclassifications

	Debit	Credit
Other Invested Assets	\$2,296,760	\$
Common Stock	<u>                    </u>	<u>2,296,760</u>
Total reclassifications	<u>\$2,296,760</u>	<u>\$2,296,760</u>

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. **Biographical Sketches**—It is again recommended that the company file biographical sketches in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Action—The company has not complied with the prior recommendation. A repeat recommendation is made under the title, Biographical Sketches, in the “Summary of Current Examination Results” section of this report.

2. **Report of Executive Compensation**—It is recommended that the company specifically name the individuals reported in the Report of Executive Compensation and Supplemental Compensation Exhibit.

Action—The company has complied with the prior recommendation.

3. **Holding Company**—It is again recommended that company’s ultimate controlling party’s annual statement, upon filing with the company’s holding company registration statement, be converted into United States currency in accordance with s. Ins 40.11 (2) (b), Wis. Adm. Code.

Action—The company has complied with the prior recommendation as they have converted the controlling party’s annual statement into United States currency. A related recommendation will be made under the title, Holding Company, in the “Summary of Current Examination Results” section of this report to address the factor used.

4. **Agents**—It is recommended that the company establish controls to ensure that its agent listing is accurate and that the company complies with the filing requirements under s. Ins 6.57, Wis. Adm. Code.

Action—The company has complied with the prior recommendation.

## **Summary of Current Examination Results**

### **Biographical Sketches**

The prior examination report made a repeat recommendation requiring the company to comply with s. Ins 6.52 (5), Wis. Adm. Code, which requires biographical sketches to be filed for new directors or officers within 15 days of their appointment or election. There were a number of new officers and directors named since the last examination. The company provided notice of one of these changes within the required 15 days, but this notice did not include a biographical sketch as required by the code. For many of the other director and officer changes, the biographical sketches had to be requested by this office before they were filed by the company. The company has again failed to comply with the filing requirements of s. Ins. 6.52 (5), Wis. Adm. Code. It is again recommended that the company file biographical sketches in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

### **Holding Company**

The company's ultimate parent, Allianz Aktiengesellschaft, files its financial statements denominated in Euros. The company's prior two examination reports recommended the company, upon filing with the company's Holding Company Registration Statement, convert the financial statements into United States currency in accordance with s. Ins 40.11 (2) (b), Wis. Adm. Code. It was noted that the company provided a conversion of the financial statements for 2002 and 2003, the two filings made subsequent to the adoption of the prior examination report. The conversion factor used for the 2002 statements was a factor as of June 18, 2003. The conversion factor for the 2003 statements was an annual average value of 1.1310.

An average conversion factor is appropriate for income statement amounts, but balance sheet amounts should be converted using a conversion factor effective as of the financial statement date. The effective conversion factor on December 31, 2003, was 1.25570. The following table shows the differences in balance sheet amounts using a factor effective on December 31, 2003.



	<b>Reported</b>	<b>Actual</b>
Admitted Assets	\$1,058,561,000,000	\$1,175,274,000,000
Liabilities	1,016,760,000,000	1,128,864,000,000
Shareholder's Equity and Minority Interests	41,801,000,000	46,409,000,000

It is recommended that the company's currency conversions contained in its Holding Company Registration Statement use a factor as of the financial statement date for balance sheet amounts and an average factor for income statement amounts.

### **Jurat Page**

Annual statement filing instructions for companies domiciled in Wisconsin state the following: "Wisconsin-domiciled insurers are required to have the notarized manual signatures of the President, Treasurer, and Secretary except if the Treasurer does not have charge of the accounts of the insurer, enter the signature and title of the individual that does. If appropriate corporate officers are incapacitated or otherwise not available due to personal emergency, vice presidents or assistant officers may sign the statement." It was noted that the Jurat page of the annual statements for the years 2000 through 2003 and the quarterly statements for 2004 were signed by the Executive Vice President and Chief Financial Officer in the place designated for the President. It is recommended that the President depose on the jurat page of the company's financial statements pursuant to annual statement filing instructions.

### **Custodian Agreement**

The company entered into a custodian arrangement with Mellon Bank, N.A. The custodial agreement was reviewed for compliance with guidance provided in the NAIC's Financial Condition Examiners Handbook. The following deficiencies were identified:

The custodian agreement states, "At its option, the Custodian may commingle any assets deposited hereunder with assets held by the Custodian on behalf of others." The agreement should clearly state that certificated securities of the insurance company shall be held separate from all other securities or in a fungible bulk. Those securities held in a fungible bulk by

the custodian, in a clearing corporation or in the Federal Reserve book-entry system, shall be separately identified on the custodian's official records as being owned by the insurance company.

Additionally, the following clauses were not included in the company's custodial agreement. "If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of the termination or withdrawal, to the insurer's domiciliary commissioner." "The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control." "The custodian shall secure and maintain insurance protection in an adequate amount."

It is recommended that future custodian agreements be consistent with the NAIC's Financial Condition Examiners Handbook guidelines.

### **Common Stock**

The company reported a common stock investment of \$2,296,760 in its annual statement. This represented an investment in Allianz Cash Pool, LLC, an affiliated entity, used for investing the group's excess cash. SSAP 48 Paragraph 6 of the NAIC's Accounting Practices and Procedures Manual specifies that investments in joint ventures, partnership and limited liability companies be reported in Other Invested Assets in the financial statements. A reclassification increasing Other Invested Assets and decreasing Common Stock by the \$2,296,760 value of the investment is found in the "Reconciliation of Surplus per Examination" section of this report. In addition, it is recommended that the company report its investment in the Allianz Cash Pool, LLC, as Other Invested Assets pursuant to SSAP 48 Paragraph 6 of the NAIC's Accounting Practices and Procedures Manual.

### **Schedule P**

Effective January 1, 2003, the company's participation in the affiliated reinsurance pool decreased from .1% to 0% on a going-forward basis through an amendment of the pooling

agreement. Schedule P – Part 1 was reported as if the company was ceding 100% into the pool and retaining 0% net risk for all years reported. The column identifying the pooling percentage was left blank. Schedule P – Part 2 reported development of net losses incurred in 2003, even though the company's participation in those results was 0%. The examination identified the difference was due to discounted reserves. There was no mention in the interrogatories about the change in pooling.

The NAIC's Annual Statement Instructions require the following reporting for pools. Direct and assumed columns include participation in any pool plus all direct business not pooled plus assumed business from other than the pool. Ceded columns include the company's participation in the pool such as any cessions to companies independent of the pool. Any retroactive change in the pooling participation will require appropriate restatement of Schedule P. Any significant changes in the pooling arrangements should be reported in Schedule P Interrogatories.

Since the change in the pooling percentage was not retroactive, the company should have reported Schedule P for years 2002 and prior based on its participation as of that annual statement date and for 2003 based on its 0% participation. In addition, the company should have identified the change in the pooling percentage in the Schedule P interrogatories and discussed any resulting anomalies created by the change. It is recommended that the company report Schedule P based on the NAIC's Annual Statement Instructions.

## **VIII. CONCLUSION**

During the period under examination, the Fireman's Fund Insurance Group underwent a restructuring where the business of the company was transferred to other members of the group. Effective January 1, 2003, the company's participation in the affiliated reinsurance pool was reduced from .1% to 0%. This effectively put the company in a run-off status and it is currently being marketed for sale.

The prior examination report made four examination recommendations. It was determined that the company complied with three of the recommendations. The recommendation not complied with was a repeat recommendation, originally made in a 1996 report, addressing timely filing of biographical sketches was again repeated in this examination report. The current examination report made five additional recommendations addressing currency conversion in holding company financial statements, deposition on the jurat page, custodial agreement requirements, reporting of a liquid asset pool, and Schedule P reporting.

As a result of the examination, the company's reported surplus of \$17,765,472 was accepted. There was a reclassification of \$2,296,760 from Common Stock to Other Invested Assets.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Biographical Sketches—It is again recommended that the company file biographical sketches in accordance with s. Ins 6.52 (5), Wis. Adm. Code.
2. Page 23 - Holding Company—It is recommended that the company's currency conversions contained in its Holding Company Registration Statement use a factor as of the financial statement date for balance sheet amounts and an average factor for income statement amounts.
3. Page 23 - Jurat Page—It is recommended that the President depose on the jurat page of the company's financial statements pursuant to annual statement filing instructions.
4. Page 24 - Custodian Agreement—It is recommended that future custodian agreements be consistent with the NAIC's Financial Condition Examiners Handbook guidelines.
5. Page 24 - Common Stock—It is recommended that the company report its investment in the Allianz Cash Pool, LLC, as Other Invested Assets pursuant to SSAP 48 Paragraph 6 of the NAIC's Accounting Practices and Procedures Manual.
6. Page 25 - Schedule P—It is recommended that the company report Schedule P based on the NAIC's Annual Statement Instructions.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Karl Albert	Insurance Financial Examiner

Respectfully submitted,

Randy Milquet  
Examiner-in-Charge